

Virtus AllianzGI Emerging Markets Opportunities Fund

A: AOTAX (92837N808) | C: AOTCX (92837N881) | INST: AOTIX (92837N840) | P: AEMPX (92837N857) | R6: AEMOX (92837N865)

MARKET REVIEW

It was a quarter of two halves for emerging market stocks. Initially, strong inflows, hopes that the new U.S. administration would herald the return of a more normal trading environment, and optimism over the global economic recovery propelled the MSCI Emerging Markets Index to fresh highs. However, sentiment turned in mid-February as higher U.S. bond yields and a stronger U.S. dollar weighed on the outlook for emerging market economies, particularly those that borrow heavily in U.S. dollars. In addition, several emerging markets raised interest rates during March, citing rising inflationary pressures. When all was said and done, the MSCI Emerging Markets Index was higher by 2.29% for the quarter.

At the sector level, pro-cyclical and value-based segments of the market were among the top performers. Materials was the best performer with a 9.10% advance, followed by real estate and communication services, both of which returned over 5%. Conversely, healthcare, consumer discretionary, and consumer staples were the only three negative sectors in the benchmark, each declining less than 5% for the month.

PERFORMANCE

In the first quarter, the Virtus AllianzGI Emerging Markets Opportunities Fund returned 6.29% (Class INST), compared to the MSCI Emerging Markets Index return of 2.29%. Stock selection in financials, materials, and consumer discretionary contributed to performance. Stock selection in utilities and an overweight in consumer staples detracted from performance.

Kia Corporation and Innolux Corporation were among the strongest stock contributors.

- > South Korean automobile maker Kia Corporation rallied amid an upside earnings surprise, coupled with unfounded news that the company may partner with Apple to make electric vehicles. We modestly trimmed our holding during the quarter to take advantage of the price appreciation and reallocated those proceeds in other attractive investment opportunities.
- > Innolux Corporation, a Taiwanese electronic components maker of LCD panels for various applications, rallied meaningfully thanks to stronger-than-expected demand and improved pricing power. We purchased the stock during the quarter due to its attractive forward valuation and expectations that investors were underestimating its near-term earnings power.

New Oriental Education & Technology Group and Vipshop Holdings were among the largest stock detractors.

- > Shares of New Oriental Education & Technology Group, a Chinese educational service provider, declined due to expectations of increased regulations and the potential for lower online testing demand related to the reopening trade. We reduced our weight in the position in light of moderating alpha expectations.

- > Vipshop Holdings, a Chinese online marketplace for deep discount and flash sales, declined due to the sudden selloff in select large Chinese consumer-related companies toward the end of the quarter amid concerns of higher government intervention. The stock was newly purchased during the quarter due to its growth potential and leadership position in the segment.

OUTLOOK

We continue to have a favorable outlook for emerging markets equities, although the road ahead may be bumpier, making stock selection even more critical. There is a likelihood that high-momentum stocks may be under pressure and negatively impacted by rising global yields, which could increasingly put valuations into question for select stocks. Our base case is that rates are likely to remain low for the foreseeable future, although they may tick up from recent trough levels. This translates to an accommodative environment for emerging market equities; current valuations are likely warranted when compared to future growth potential. A spike in inflation or a strong dollar could cause investors to reassess the asset class, which has been outperforming developed markets over the last year.

At the end of the first quarter, the Fund continued to have a meaningful overweight to the information technology sector, primarily due to the favorable outlook for semiconductor-related stocks. Materials was also an overweight allocation, due chiefly to above-benchmark exposure in metals & mining stocks. Alternatively, communication services, utilities, and real estate were the three largest underweight allocations due to a less attractive risk/reward profile. Country weights were positioned with above-benchmark weights in India, Taiwan, and South Korea, thanks to favorable near-term outlooks on a bottom-up basis. South Africa, Saudi Arabia, and China were the three largest underweights due to a less attractive growth versus valuation mix.

We continue to construct the Fund on a bottom-up basis with conviction at the stock level. In addition, we apply a dual risk budget, targeting a tracking error of 4-5% and lower forecast risk than the benchmark, which may help protect capital during inevitable down market periods and provide our clients with a greater level of return consistency. We believe investment results will be supported by earnings growth, our behavioral finance-focused investment process, and our focus on higher-quality securities with attractive company fundamentals.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Allianz Global Investors

PORTFOLIO MANAGERS



Kunal Ghosh
 Industry start date: 2003
 Start date as Fund Portfolio Manager: 2007



Lu Yu, CFA, CIPM
 Industry start date: 2002
 Start date as Fund Portfolio Manager: 2010

TOP TEN HOLDINGS

% Fund

Taiwan Semiconductor Manufacturing Co., Ltd.	9.27
Tencent Holdings Ltd.	6.71
Samsung Electronics Co., Ltd.	4.83
Hana Financial Group, Inc.	3.39
China Merchants Bank Co., Ltd. Class H	2.94
HDFC Bank Limited Sponsored ADR	2.74
Innolux Corp.	2.69
Alibaba Group Holding Ltd. Sponsored ADR	2.51
Oil Company LUKOIL PJSC Sponsored ADR	2.18
Lenovo Group Limited	2.15

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Taiwan Semiconductor Manufacturing Co., Ltd.	1.09
KIA Motors Corporation	0.88
Tencent Holdings Ltd.	0.53
Innolux Corp.	0.52
Hana Financial Group Inc.	0.51

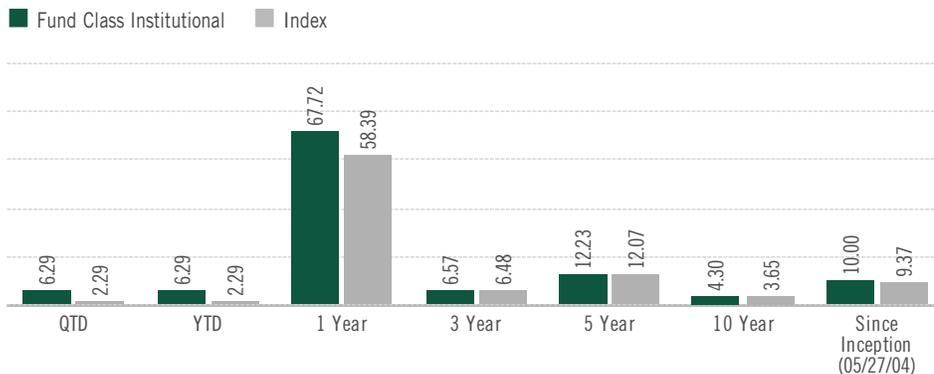
TOP FIVE DETRACTORS % Contribution

New Oriental Education & Technology Group, Inc. Sponsored ADR	-0.36
Vipshop Holdings Ltd Sponsored ADR	-0.30
Companhia Paranaense de Energia - COPEL Pfd Registered B	-0.20
COSCO SHIPPING Holdings Co., Ltd. Class H	-0.20
Baidu Inc Sponsored ADR Class A	-0.17

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/21



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.22%. The net expense ratio is 0.95%, which reflects a contractual expense reimbursement in effect through 2/1/2023. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.94%.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

Index: The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment.

Notes on Risk: Market Volatility: Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Focused Investments:** To the extent the portfolio focuses its investments on a limited number of issuers, sectors, industries or geographic regions, it may be subject to increased risk and volatility. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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